



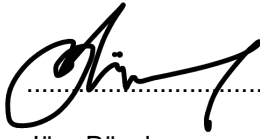
SOLVENCY AND FINANCIAL CONDITION REPORT

SFCR

Sappisure Försäkrings AB

516406-0583

Stockholm 15 April 2019



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Jörg Pässler
Managing Director,
On behalf of the Sappisure Board

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SUMMARY

Sappisure Försäkrings AB (hereafter the “Company” or “Sappisure”), has provided direct and indirect insurance, within the limits of the Sappi Group's own risk policies, within and outside the EEA area, regarding damage to property, business interruption, marine freight transport and other financial loss.

In the context of Sappi's overall risk management strategy Sappisure needs to remain risk neutral and will not assume any insurance risk that could reduce its capital in the event of a claim. This implies that all policies are to be structured on a pay-as-paid basis, in order to avoid Sappisure having to pay a claim without being reimbursed. All policies written for Sappi's regional companies therefore need to be fully reinsured, also on a pay-as-paid basis. Sappi companies assume the risk that if, for whatever reasons, Sappisure is not paid a reinsurance claim then the claim to the Sappi Company will also not be paid. This strategy protects the capital of Sappisure.

In addition to this pay-as-paid approach, the reinsurance of Sappisure's policies are in two separate categories:

1. External market reinsurance with a panel of appropriately rated reinsurance companies
2. A standby guarantee arrangement with Sappi Papier Holding GmbH (SPH), Sappi's international holding company. This contract is fronted by Vienna Insurance Group, an insurance company under Austrian financial supervision (FMA). In terms of this arrangement any event that has the impact of reducing Sappisure's capital below the minimal capital requirement results in an immediate cash transfer from SPH to restore Sappisure's capital to the required level. In line with the same pay-as-paid principle outlined above, in the unlikely event that SPH does not provide the required capital top-up, Sappisure will in turn not be bound to pay the claim it has received. This construction ensures that Sappisure will never have capital below the minimum requirement.

The specific reason for structuring the insurance and reinsurance arrangements of Sappisure in this way is to ensure that Sappisure will never be short of capital and always maintains capital at least at the minimum requirement. The current guarantee trigger is based upon the minimum capital requirement as calculated under the Solvency II regulation, effective from January 2016, plus a margin of 25%. The trigger is linked to the Solvency Capital Requirement (SCR) ensuring that Sappisure fulfils the requirement at all times.

The company prepared two specific stress tests in 2017 and both scenarios are mitigated by the structure and use of the default swap.

SCR

According to the company's risk appetite Sappisure should always keep a sufficient level of SCR (Solvency Risk Requirement) at any time with a minimum ratio of 110%. However, the Sappisure Board stipulated that Sappisure will ensure that the company always shows a SCR-ratio of 125%.

At the end of the year 2018 the reported SCR (Solvency Risk Requirement) was KEUR 5,946 and eligible capital KEUR 14,719 resulting in a SCR-ratio of 248% and MCR-ratio of 398% which is in-line with the agreed levels.

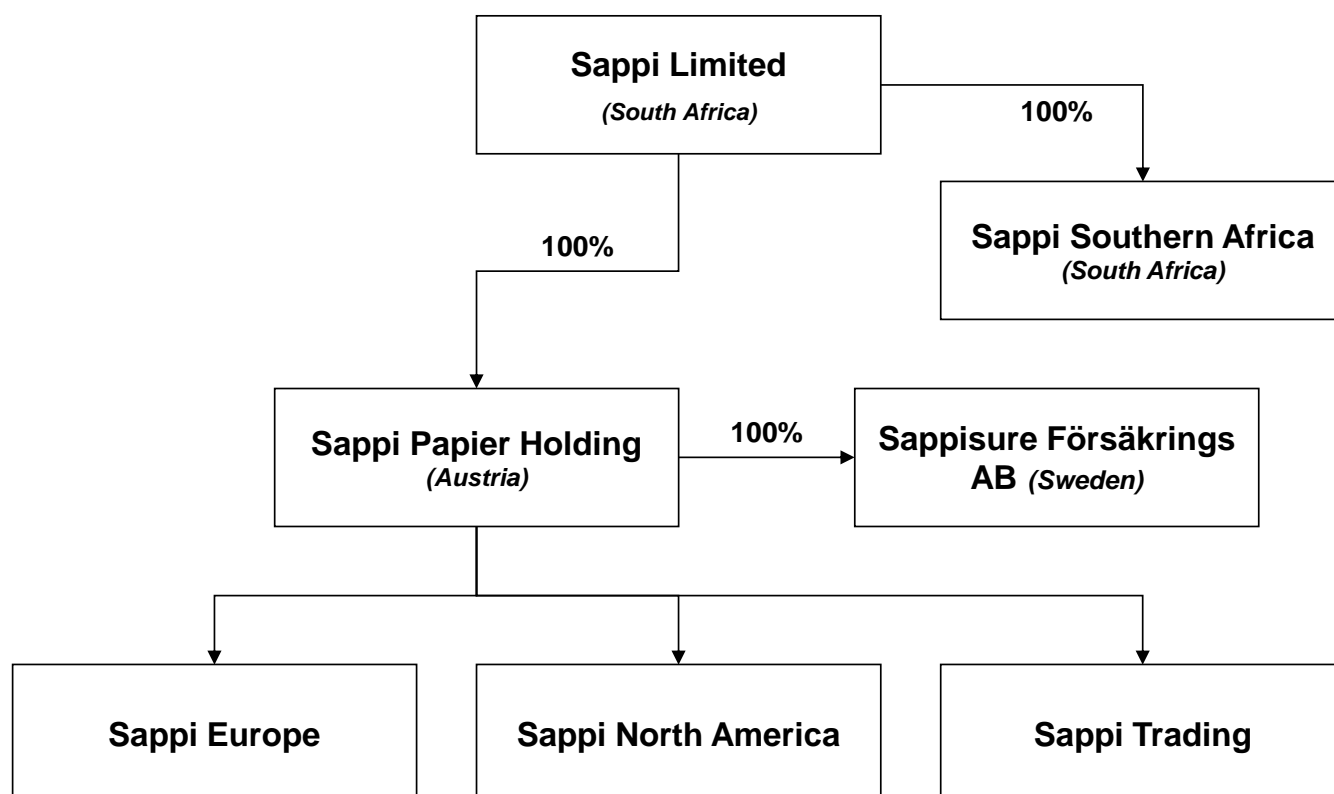
A. BUSINESS AND PERFORMANCE

A.1 BUSINESS

Sappisure Försäkrings AB (hereafter the “Company” or “Sappisure”), provides direct and indirect insurance, within the limits of the Sappi Group's own risk policies, within and outside of the EEA area. The policies provide insurance for damage to property, business interruption, marine freight transport and other financial loss. The two main countries for insurance policies provided outside the EEA area are the USA and South Africa.

Sappisure is under the auspices of the Swedish Financial Services Authority (Finansinspektionen, Box 7821, 103 97 Stockholm. E-mail: finansinspektionen@fi.se. Phone: 08-408 980 00.) and is audited by KPMG. The responsible partner at KPMG is Ms. Gunilla Wernelind (+46 8 7239176 gunilla.wernelind@kpmg.se). Sappisure is a wholly owned subsidiary of Sappi Limited, a public company listed on the Johannesburg Stock Exchange.

The organisational structure is as follows:



In terms of Sappi group policy, Sappisure needs to be risk neutral and will not assume any insurance risk that could reduce its capital in the event of a claim. The policies are structured on a pay-as-paid basis, in order to avoid Sappisure having to pay a claim without being reimbursed. All policies need to be fully reinsured. In addition to this pay-as-paid approach a standby guarantee arrangement with Sappi Papier Holding GmbH (a wholly owned Sappi Limited subsidiary based in Austria) is in place.

The contract is fronted by Vienna Insurance Group and ensures that any event that has the impact of reducing Sappisure's capital below the MCR requirement results in an immediate cash transfer from Sappi Papier Holding to restore Sappisure's capital to the required level.

The company's business planning is prepared for a three-year horizon. Within the framework of the current three-year plan no significant changes are planned.

There are no significant legal issues and / or regulatory issues.

BUSINESS OBJECTIVES

The objective for the company is to protect the assets and interests of the Sappi Group, and to support the development of risk reduction and loss control as well as to maximize the cost coverage and effectiveness of insurable risk.

To achieve this business objective the Company shall:

- Design and implement a reinsurance programme appropriate to the specific requirement of the Sappi Group.
- Ensure an appropriate reporting procedure for claims.
- Ensure full settlements of claims in the shortest possible time.
- Ensure appropriate financial reporting and information flow for accepted reinsured business.
- Optimize the investment return in line with the Company's investment strategy.

The follow-up of the company's business objectives is an ongoing process.

A.2 UNDERWRITING PERFORMANCE

During 2018 the Company provided, within the limits of the Sappi Group's own risk policies, direct insurance outside of the EEA area and indirect insurance within the EEA area, regarding damage to property, business interruption, marine freight transport and other financial loss.

The company's revenue and expenditure in insurance operations per Line of Business is shown in table below:

	Total	Property insurance	Freight insurance	Other wealth insurance	Inward reinsurance
Non-life insurance operation's technical results					
Premium income (before outward reinsurance)	17 035	7 748	516	312	8 458
Premiums for outward reinsurance	-5 518	-2 526	-128	-104	-2 760
Premium earnings (after outward reinsurance)	11 516	5 222	388	208	5 698
Capital return transferred from financial business	-423	-192	-14	-8	-210
Insurance payments (after outward reinsurance)	-13 736	-1 497	-125	-15	-12 100
Operating costs	-796	-361	-27	-14	-394
Non-life insurance operation's technical results	-3 439	3 172	222	171	-7 005

In 2018 income from premiums, before outward reinsurance, amounted to EUR 17.0 million (2017: 15.5 million). Premiums for outward reinsurance amounted to EUR 5.5 million (2017: 5.4 million). Sappisure's technical results were EUR -3.4 million (2017: 4.6 million).

Reported and registered claims, including claim handling costs and IBNR during the 2018 financial year resulted in a gross claim cost of EUR 13.8 million (2017: EUR 13.4 million). The reinsurer's portion amounted to zero in both 2018 and 2017. The provision for reported but not settled claims in 2018 is EUR 4.2 million (2017: EUR 6.8 million). The provision for IBNR is EUR 5.1 million (2017: EUR 3.7 million).

The earned premium and administrative costs per line of business was in line with the budget in 2018.

The company does not budget for any claims cost, as any potential large claim cost will be met by an investment income under the standby guarantee arrangement with Sappi Papier Holding GmbH. The forecast for the company's insurance operating results during 2019-2020 is that external premiums and premium costs are expected to be at the same level as in 2018, whereas the cost of the standby guarantee has increased in view of the claims in 2018. The company has during 2018 conducted several risk engineers surveys according to plan.

A.3 INVESTMENT PERFORMANCE

During the last reporting period, the company's investments were allocated to:

- Cash at bank (15.1 million EUR).
- Government Bonds (2.0 million EUR)

Total investment result for 2018 amounts to EUR 1.9 million (2017: EUR 6.7 million).

Capital return, earnings

KEUR	2018	2017
Interest earnings, cash & bank	-	-
Income in accordance with swap agreement (financial guarantee)	12.662	15.726
Realised gains, foreign exchange contracts	11	12
Unrealised losses, foreign exchange contracts	2	-
Exchange rate gains (net)	17	-
Total return on capital, income	12.692	15.738

Capital return, costs

KEUR	2018	2017
Interest costs, bonds and other interest-bearing investments	-65	-54
Cost in accordance with swap agreements (financial guarantee)	-10.625	-8.849
Realised losses, foreign exchange contracts	-10	-14
Unrealised losses, foreign exchange contracts	-	-
Exchange rate loss (net)	-	-28
Total return on capital, costs	-10.701	-8.946

No changes are planned for the investment strategy for the years 2019-2021.

In line with Sappi's policy all investments have a tenure below 3 months in order to be classified as cash and cash equivalents in terms of the IFRS definition.

A.4 PERFORMANCE OF OTHER ACTIVITIES

Sappisure has no income or expenses which do not relate to its insurance business (and related investment income) and has no plans to alter its modus operandi.

A.5 ANY OTHER INFORMATION

No other information.

B. SYSTEM OF GOVERNANCE

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

The board of directors is the ultimate governing body of Sappisure. The board attends to all matters which are not reserved for the annual general meeting or another governing body of Sappisure by law, the articles of association or the board regulations of Sappisure. The directors elected to the Sappisure board require the appropriate background and qualifications, and the relevant experience and knowledge to deal with the insurance and administrative matters of Sappisure. The powers and the duties of the board of directors, as well as the delegation of powers, are set out in the Work Instructions for the board of directors.

The Managing Director is responsible for ensuring that a review is conducted for the key functions i.e. the risk management function, actuarial function, compliance function as well as the internal audit function at least yearly or when personnel changes take place.

The guideline for each function shows what the function is responsible for, and the evaluation shall take account of all these tasks. The risk management function can be examined from a collective perspective but the risk management officer will also be examined at the individual level. The appointed actuary is tested on an individual level while compliance and internal audit can be examined from a collective perspective.

Risk Management is a key component of the Sappi Corporate Governance process. As an entity listed on the Johannesburg Stock Exchange, Sappi Ltd subscribes to the Code of the Corporate Governance and Practices as formulated by the third King committee on corporate governance 2009 (known as “King 3”).

In order to achieve these Governance Objectives, the Company has set up a Corporate Governance Framework based on following principles:

- the Board of Directors is the focal point of the governance system and is ultimately accountable and responsible for the performance and conduct of the Company and, as such, must have at its disposal all required capabilities to achieve its duties;
- an embedded Compliance Function aiming to ensure the continuous compliance of the Company with all legal, regulatory and administrative requirements, i.e. essentially the Solvency II Directive;
- appropriate segregation of duties in order to enable the various risk management, internal audit, actuarial and compliance function to perform independent risk and business control, mitigation, monitoring and reporting tasks;
- a meaningful and practical approach in documenting policies and strategies to formalize all processes and ensure efficiency, fit and proper and best-in-class criteria;
- structured reporting processes to enable an appropriate escalation of risk issues to the Board of Directors in order to ensure a clear and comprehensive information process allowing the Board to perform an efficient and prudent conduct of business in line with the strategic objectives.

REMUNERATION

The Sappisure remuneration policy is in line with the general advice on remuneration policies for insurance companies, stock exchanges, clearing organizations and institutions for the issuance of electronic money (FFFS2015:14), issued by the Swedish FSA.

This Policy aims to promote effective risk management and to prevent excessive risk taking within Sappisure Försäkrings AB (the Company). It should not discourage the Company's long-term interests or jeopardize its ability to collectively report positive results over an economic cycle.

Principles for determining remuneration

The objective of the Company is to insure certain risks of the parent group, therefore the consequences of possible excessive risk-taking is limited to the parent group and will not directly affect third parties. The Company does not have any employees and is managed by the Board of Directors, with assistance from external consultants and employees of the parent group. External Directors who are not part of the Sappi group receive remuneration on a fixed basis and there are therefore no incentives from the Company that may encourage excessive risk taking.

As this remuneration policy does not encourage increased risk taking, it should be considered compatible with effective risk management.

The company's risk level

The Managing Director can exercise a significant degree of influence over the Company's risk level.

This remuneration policy does not encourage excessive risk-taking and should therefore be considered to be in accordance with effective risk management.

Practice and monitoring

The Board is responsible for ensuring compliance with this Policy as well as instigating regular reviews and amendments as and when necessary. Director Glen Pearce is the person currently responsible for preparing vital compensation decisions and decisions concerning the practice of this Policy. Any changes to this Policy shall be resolved by the Board.

B.2 FIT AND PROPER REQUIREMENTS

The board of Sappisure is comprised of the following directors:

Name	Residence	Nationality	Position
Glen Thomas Pearce	South Africa	South African	Director
Ann-Charlotte Eriksson	Sweden	Swedish	Chairman
Susanne Ström	Sweden	Swedish	Director
Jörg Pässler	Belgium	German	Managing Director
Wouter van den Heever	South Africa	South African	Director

FIT AND PROPER.

The company has established some categories of competence and minimum criteria to ensure that persons who effectively manage Sappisure or other key functions meet the requirements for qualifications. This includes the various tasks assigned to individuals in order to ensure an appropriate diversity of qualifications, skills and relevant experiences so that the company is managed and operated in a professional manner.

The Board of Directors shall be considered from a collective perspective where the composition of Board members together has competencies in:

1. Insurance and financial markets.
2. Business strategy and business model.
3. System of governance.
4. Financial and Actuary analyses.
5. Regulatory framework and requirements.

Each new Member must be notified to the Swedish FSA for further assessment, if required.

A review shall be undertaken when the Board changes its composition or upon the appointment of any new director(s). A review by the Swedish FSA is carried out on new directors.

B.3 RISK MANAGEMENT SYSTEM

The objectives of Sappi Limited's (holding company of Sappisure) approach to risk management can be stated as follows:

- Financial, operational and management systems directly support the management of risks (including ethical risks) that threaten the achievement of Sappi's objectives,
- The Executive Management and Regional Management structures, as well as the Functional Area leadership, all have active, structured, and commonly shared knowledge of the whole range, and the relative priority of key risks that they have to manage,
- Reporting entities are to consider, as part of their risk assessment process, major changes (implemented or anticipated) and significant actions undertaken by the company, as well as substantial projects, re-builds and company restructures,
- Staff objectives are set in terms that reflect the strategic, operational, and ethical risk priorities. This could include induction training for all new employees to include the extent to which they are responsible for risk management in their areas. Regional risk specialists (managers) assist line managers with risk management, where needed,
- A risk management culture is instilled at Sappi by promoting risk management as good business practice,
- Integrating risk management into all aspects of business practices and decision-making processes,
- Embedding risk management into all businesses (making it inseparable from Sappi's strategic & business procedures as well as practiced by all staff in their day to day activities),
- Responsibility for the management of risks is assigned to staff that have the authority to ensure that risk is managed,
- Resources are assigned to the management of risks in such a way as to optimise value for money,
- The Executive Committee's priorities in respect of risk are communicated,
- Wherever possible, Risk Management expenditure such as insurance is centralised in the office of Group Risk Management to enable Sappi to manage the total cost of risk,
- The risk management process is continuously monitored,
- Business Continuity risks are identified on a timeous basis to enable management to perform Business Continuity Planning,
- The reporting of risk is structured and flows from employees, management, the Group Risk Management Team and Risk Committee, the Sappisure Board of Directors and the Sappi Ltd Board, and
- The risk management system functions efficiently and effectively integrates with Corporate Planning processes.

The overriding goal of Sappi's risk management strategy is to control and achieve as much reduction as possible in the company's risk exposure as a means of minimizing the impact of undesired and/or unexpected events. The purpose is to increase the likelihood of achieving Sappi's strategic and governance objectives.

Consequently, the risk management objectives are to:

- set out the level of risk acceptable by the company (risk appetite and risk tolerance);
- identify risks which represent a threat to the achievement of its strategic objectives;
- identify, define and regularly measure key risk metrics enabling an efficient monitoring of risks;
- define and take appropriate actions to limit the company's risk exposure;
- ensure the risk management framework implementation in day-to-day business processes;
- regularly review controls and mitigation actions to ensure that they remain relevant and effective.

The key risk categories for which Sappi has set up control and monitoring mechanisms are:

- Underwriting and Reserving risks
- Investment risks
- Matching risks
- Liquidity and Concentration risks
- Operational risks
- Reinsurance and other risk mitigation methods
- Strategic risks

In order to achieve these objectives, the risk management system of Sappi has been clearly documented and specified through risk management policies to each key risk category.

These policies detailing all key components of Sappi's risk management system ensure that it:

- contains clearly assigned overall risk management responsibilities;
- is defined to be consistent with the strategic objectives of the group;
- operate across all the activities of the group;
- is a continuous approach which is referred to in all major decision-taking processes.

Specific objectives for Sappisure:

- In the context of Sappi's overall risk management strategy Sappisure needs to remain risk neutral and will not assume any insurance risks that could reduce its capital in the event of a claim.
- This implies that all policies are to be structured on a pay-as-paid basis, in order to avoid Sappisure having to pay a claim without being compensated.
- All policies written for Sappi companies therefore need to be fully reinsured, also on a pay-as-paid basis. Sappi companies assume the risk that if, for whatever reasons, Sappisure is not paid a reinsurance claim then the claim to the Sappi company will also not be paid. This strategy protects the capital of Sappisure.
- A "capital top-up" arrangement is part of the reinsurance with Sappi Papier Holding (SPH), Sappi's international holding company. This contract is fronted by Vienna Insurance Group, an insurance company under Austrian financial supervision (FMA). In terms of this arrangement any event at Sappisure that has the impact of reducing its capital below the minimal capital requirement results in an immediate cash transfer from SPH to restore Sappisure's capital to the required level. The specific reason for structuring the insurance and reinsurance arrangements of Sappisure in this way is to ensure that Sappisure will never be short of capital and always maintain capital at least at 125% of the minimum capital requirement.
- Sappisure is responsible for the insurance underwriting process. However, external consultants may be appointed on a case by case basis in order to provide certain services in respect of underwriting.
- Only the board of directors has the authority to place Sappisure at insurance/reinsurance risk. The signing of various insurance/reinsurance documents can be delegated to two board members jointly. In the event of exceptional circumstances that require urgent attention, the Managing Director and the Sappi Group Risk Manager (in his position as a Sappisure board member) may place Sappisure at insurance/reinsurance risk, subject to subsequent ratification by the board of directors.

SIGNIFICANT RISKS

The only possible significant risk is that Sappisure cannot get re-insurance from outside markets. However, we consider this risk to be "Remote" as reinsurance markets have to seize up completely for Sappisure not to be able to get outside insurance coverage. More importantly, Sappisure has a pay-as-paid clauses in place which will protect its solvency.

INVESTMENTS

Investments are booked based on the legal requirements of IFRS. Non group investments (e.g. treasury bills) are classified as held to maturity in accordance with internal policy of the Sappi Group, and are valued at the amortized cost method. Investments held with Sappi Group Treasury (e.g. loans and foreign exchange derivatives) are booked in accordance with the fair value/market value distributed by Sappi Treasury at month-end.

The objective of the investment portfolio is to maximise investment returns by taking advantage of beneficial interest rates offered on intra-group credit agreements and then to place surplus funds on rolling fixed deposits with SEB or Crédit Agricole.

Sappisure has to cover its technical provisions (own account) with admissible assets. The type of asset that is admissible for this purpose is stated in the investment policy. For further information in respect of how Sappisure and AGRC ensure that the technical provisions are fully covered with admissible assets at any given time, see Appendix Guidelines for Coverage of Technical Provisions.

All investments are strictly in line with Sappisure's investment policy. The guidelines for the investments must be approved by the Board of Directors of Sappisure. The investment policy is reviewed on a regular basis and amended by the Board of Directors of Sappisure, when appropriate.

CREDIT ASSESSMENTS

The policy is to control Sappisure's exposure to third parties in the course of the treasury activities, within the parameters approved by the Sappisure board from time to time. To achieve compliance with this policy:

Counterparty exposure will be measured in terms of four specific categories of risks, namely:

Exposure type	Quantification of exposure
Deposits and cash instruments	100% of face value
Treasury bills	Held to maturity – amortized cost method
Forward contracts	Mark-to-market value plus 1% ¹ , determined monthly
Payments and Settlements (settlement risk)	The concentration of net payments on any due settlement date receivable from any counterparty is restricted to USD150 Million for A+ and AA- banks and USD500 Million for higher rated banks.

¹ A 1% margin is added to the mark-to-market calculation to cover any transactional costs in a possible unwind and to allow for currency volatility as the valuation will be impacted by sudden movements in the underlying

The applicable maximum counterparty limits require Sappisure board approval on an annual basis, and the current approved limits are summarised below.

Credit Rating (long term)	Limit (net counterparty exposure)
Below A+	Zero
A+	The higher of USD/EUR 30 Million maximum
AA-	The higher of USD/EUR 50 Million maximum
From AA and better	The higher of USD/EUR 100 Million maximum

OWN RISK AND SOLVENCY ASSESSMENTS:

Introduction

Sappisure regularly performs an ORSA (Own Risk Solvency Assessment) process to provide its Board of Directors with a forward looking risk and capital assessment. The adequacy of the available capital, the risk appetite and the appropriate risk limits are assessed for the business planning period, considering the current risk profile.

To this end, risks and scenarios to which Sappisure is exposed during the business planning period and which may affect the capacity to meet its (re)insurance obligations or pose a threat to the achievement of its business objectives are taken into account.

Objectives

The ORSA process supports the Board of Directors in achieving its strategic objectives by taking a structured and combined approach of strategy, risk management and capital management.

Within this context, the prime purposes of the ORSA processes are to:

- provide the Board and Senior Management with an assessment of whether risk management and solvency position are currently and prospectively adequate;
- provide the shareholders with a plan for capital needs over the time horizon of the financial planning;
- serve as an essential insight for any strategic decision to be made;
- serve as a supervisory tool by providing a detailed understanding of the evolving risk exposure,

exchange and interest rates. This margin also provides headroom for any mark-to-market movements in the event of a bank defaulting, and the need to replace the hedge in the market.

solvency position and capital planning of the Company to the Supervisory Authority.

Frequency

The ORSA process is performed within the Company at least once a year or when any of the following triggers occur:

- exceeding the risk tolerances defined in the risk appetite statement;
- material change of the applied risk limits;
- net premium increase or decrease of 20% or more;
- introduction of new lines of business or extension of existing lines;
- material change in the Company risk profile, due to internal or external evolutions;
- change in strategy.

Depending on the trigger and an initial assessment of the impact it will be decided whether a full or a partial ORSA will be conducted, focused on the triggering event while keeping other variables constant.

Principles

The following underlying principles must be respected while conducting Sappisure's ORSA process:

- time horizon of the ORSA is over three years, following the financial planning timeframe;
- the ORSA focuses on material risks that may threaten the accomplishment of the Company's strategic objectives or might have a substantial impact on the available qualifying own funds, these risks could result from either internal or external events;
- it is based on adequate measurement and assessment processes;
- the Financial Plan, Risk Appetite framework and the Risk Register will be updated and documented beforehand;
- consideration is given to the risks included in the calculation of the SCR, as well as to the risks which are not or not fully captured in the SCR calculation and identified in the risk profile;
- it is a forward-looking process, combining the Company's strategic objectives, financial planning and its risk profile;
- stress-testing as well as scenario analysis are based on adequate assumptions in accordance with Sappisure's risk profile;
- the ORSA process and outcome are appropriately documented by issuing an ORSA report;
- the said report is circulated to whom the ORSA is relevant.

Governance

The ORSA process is carried out under the ultimate responsibility of the Board of Directors by the Risk Management Function, in close cooperation with the Actuarial Function.

It is the responsibility of the Board to ensure the ORSA is performed in accordance with this policy.

The Internal Audit Function evaluates controls and monitors the ORSA process design, effectiveness and control actions. The final ORSA Report to be issued is validated by the Board of Directors.

Approach

The Company's ORSA approach is formalised through the four work processes detailed in the Architecture of Controls and processes hereafter.

The approach may be summarized as follows:

Define the Stress Scenarios

Stress testing and scenario analysis is used to assess whether the available and future capital are sufficient in expected and stressed situations. The appropriate risk limits are also assessed by stress testing. Stress Test Scenarios are designed by the Risk Management Function, reviewed by the Actuarial Function.

Stress the Financial Plan

Stress test scenarios are embedded into the projected financial plan under Solvency II GAAP. Related SCR/MCR and solvency ratios are then calculated for each year, resulting in the Stressed Financial Plan and the solvency impact of validated scenarios.

The tasks of this process are conducted by the Actuarial Function and validated by the Risk Management Function.

Assess prospective solvency needs

On the basis of the Stressed Financial Plan; the Risk Management Function identifies potential additional mitigation actions to reduce the potential impact of the Stress Scenarios.

The main purpose of this stage is to identify and assess any relevant complementary control, mitigation actions or review of the Risk Appetite in order to match prospective solvency needs with capital position.

Any remaining solvency gap will be covered through a relevant capital plan, i.e. defining the measures to restore the Company's solvency margin should the assumed scenarios occur.

Produce the ORSA Report

The ORSA report resulting from this approach will bring clarity about projected risk profiles and solvency needs through dedicated sets of information in line with their expectations.

Board of Directors

Matching between risks to which the Company is or can be exposed and the Risk Appetite framework will provide a clear understanding of critical risk exposures and their relationship within risk appetite boundaries.

Shareholders

Detailed understanding about the risk of bankruptcy and potential need for future additional capital will provide a plan for capital needs on the time horizon of the financial planning.

Supervisory Authority

Detailed understanding of potential ORSA deviations compared to the SCR under Pillar I.

Will gather information about:

- calculation of Pillar I SCR for each year included within the financial planning;
- related projected Solvency ratios;
- explanations about deviations due to specific critical risks exposures.

The Risk Management Function is in charge of preparing the ORSA Report to be ultimately validated by the Board of Directors.

B.4 INTERNAL CONTROL SYSTEM

The Board of Directors and the Managing Director's (MD) responsibility are clearly defined and benefits the overall responsibility and governance of the company in order to ensure sound and prudent management. Responsibility for the various key functions and other duties are described in greater detail in specific guidelines for the Board and the MD.

Responsibilities

The Board has ultimate responsibility for Sappisure's organisation and management of the affairs of the company under the Insurance Business Act and others laws. The Board of Directors has overall responsibility for ensuring that the company's internal control and management is effective and efficient and within the defined guidelines for the management and control processes.

The Board of Directors decides on an ongoing basis the company's direct and reinsurance strategies, activities and business objectives at regular Board meetings. All substantial changes in the business and the organisation shall be decided by the Board.

The MD is responsible for ensuring that the guidelines and Governance Manual are continuously updated and to annually review the guidelines at a Board meeting for renewal for the next one-year period.

The MD is responsible for the day-to-day administration of Sappisure under the Board's supervision. The MD shall ensure that Board members have access to current information needed to comply with all regulations.

Decision-making

The company applies the duality principle. All important decisions will be taken by the Board of Directors at board meetings. These decisions are all well documented in the board protocol. Protocol shall also state when and how decisions of the audit function and information from the risk management system are taking into account.

Decisions concerning operations but not taken at board meetings are taken at meetings between the MD and the person/function responsible for insurance and claims administration and/or risk management. Decisions from these meetings are documented and saved on a server.

Decisions taken at the Risk Management meetings will be documented in a similar way to other business decisions.

Authorisation instructions

Three types of authorisations are used:

- Control authorisation (control and audit authorisation)
- Decision authorisation
- Payment authorisation

The three authorisation types cannot be combined by the same person in a given case. Authorisations may not be made in cases where personal conflicts exist. All authorisation protocols shall be reviewed and approved by the board on an annual basis.

The MD has overall certificate right under the Insurance Business Act and can sign for the firm alone in day-to-day administrative matters. In practice however, the MD will always ensure that a second person is party to any decision regarding the affairs of Sappisure.

PERFORMED ACTIVITIES

The Risk Management function holds two scheduled board meetings per year, typically in June and November, and if necessary, additional meetings will be held.

The following matters will be dealt with at these respective board meetings:

June Meeting

- Review of the company's previous Compliance and Risk management report (Risk Control).
- Review and update of Governance Manual if required.
- Review and update of Risk registers and risk appetite.
- Sappisure Annual General Meeting will also be held on the same day.
- Sappisure Statutory Board Meeting will also be held on the same day.

November Meeting

- Review and update of Risk registers and risk appetite, overview of the various insurance lines for the following insurance year (renewed on an annual basis, per calendar year).
- Approve the annual updated ORSA report.
- The Risk Management function shall regularly update the Board with the function's work after each meeting held.
- The updated Governance Manual and the guideline are to be approved by the Board and must be reviewed at least once a year or when an external or internal event with significant implications for the risk management system occurs.

COMPLIANCE:

The board of directors of the Company has determined the following Guidelines for the Compliance function:

The Function answers to the board of directors.

Head of Function: Aon Global Risk Consulting AB, Josefine Dawson

The Function shall regularly

- inform the board of directors about the risks which can arise in the operations as a consequence of deficient compliance,
- help to identify such risks,
- audit the compliance in the company, and
- assist in establishing internal guidelines.

The board of directors shall determine an annual audit plan for the Function.

Reports from the compliance audits shall be sent to the independent monitoring function.

The Function shall receive a copy of all minutes from the meetings held by the board of directors and from shareholders' general meetings.

The Function shall regularly inform all officers about new or changed guidelines and if necessary educate the officers with regard to the new regulations

B.5 INTERNAL AUDIT FUNCTION

Head of internal audit function: Sappi Europe Regional Internal Audit Manager

The independent monitoring function monitors that the operations of Sappisure are in accordance with the board of directors' internal regulations. The head of the function annually presents an internal audit report to the board of directors. The function monitors the compliance and risk control functions and receives a copy of the reports prepared by those two functions. The controls carried out by the independent monitoring function will be in line with the group's internal controls.

The Internal Audit Function shall evaluate and monitor the structure of the ORSA process. The person shall monitor the scope and focus of the operations of the Company is in accordance with the board of directors' internal regulations.

The Audit Function's work shall be documented. The internal audit function, shall in the report to the board of directors, includes the envisaged period of time to remedy the shortcomings, and information on the achievement of previous audit recommendations.

The managing director shall ensure that the internal auditor regularly receives a copy of the General Guidelines issued by the Finansinspektionen, the company's internal regulations and guidelines. The internal auditor shall also receive minutes from the board meetings and the shareholders' general meetings.

The Audit Function shall receive a copy of the reports prepared by the Compliance function and the Risk Control function. The person shall immediately advise the board of directors of any change in the Company's risks and internal regulations that could jeopardise the insured's possibility of being compensated for losses filed and/or the future operations of the Company

The board of directors shall annually determine an audit plan for the function.

No changes to this policy were made in the year under review.

INTERNAL AUDIT 2018:

Internal Audit performed a review of controls at Sappisure Försäkrings AB ("Sappisure") in Stockholm (Sweden). As a (captive) insurance company, Sappisure is subject to the regulations of the Swedish Financial Supervisory Authority (FSA), which includes compliance with European Solvency II requirements. This new European legislation is aiming to make insurance companies hold sufficient amounts of capital to reduce the risk of insolvency and became effective from 1st January 2016.

Executive Summary

The majority of the controls reviewed were found to be both adequate and effective.

Current control strengths include:

- Close cooperation of Sappisure management and AON;
- Established set of processes and procedures tailored to Sappisure needs;
- Detailed management reporting provided by AON Sweden to Sappisure management.

Overall, the governance, risk assessment and compliance processes are well established. Nothing came to our attention which indicates that Sappisure is not compliant with the requirements of FSA regulations.

INTERNAL AUDIT PLAN 2019:

As required by the guidelines for the Independent Monitoring function of Sappisure the following is the scope of the audit for 2019:

Sappisure Internal Audit scope:

- As per the FFFS regulations (described in the Sappisure guidelines) for the Independent Monitoring function: to independently verify that the scope and focus of Sappisure is in accordance with the board of directors' internal regulations.
- Based on the mandate from the Sappi Ltd audit committee: To determine with reasonable assurance that adequate and effective internal controls are in place to mitigate risks for the Sappi group.

This entails:

- A general update of the Sappisure business to determine impact on audit risk assessment (inter alia through discussion with management, review of board minutes and review of financial reports);
- Review of (revised) FSA and other international (Solvency II) or Sappisure internal regulations;
- Review of Risk Officer and Legal Compliance reports;
- Review of updated external insurance contracts and determine they have been correctly recorded in line with board decisions;
- Review of insurance claims process;
- Financial reporting controls: review of balance sheet and supporting documentation, month-end checklists, internal reporting, intercompany reconciliations, HFM reporting, analytical reviews, non-routine items, calculation of solvency requirements;
- Expenditure controls: approval process of invoices, sample review of expenditure, payment process;
- Treasury controls over FX exposure and investments.

Timing of the audit will take place during August 2019.

The persons carrying out the internal audit function don't assume other key functions in company.

B.6 ACTUARIAL FUNCTION

The Actuarial function is outsourced to Aon Global Risk Consulting AB (AGRC) with appointed responsible actuary Filip Cederquist. These guidelines will be revised annually and are set by the Board.

The Actuarial function is directly subordinate to the Managing Director of Sappisure and reports directly to the Managing Director and, if necessary, the Board of Directors. The Actuarial function shall in their reporting, document all material information of assessment which has been carried out, its results and clearly identifying any deficiencies and make recommendations for how these can be addressed.

The Actuarial functions range of duties is commonly dominating of the company's risk exposure and risk-assessment based on the actuary's expertise. However, actuarial function does cooperate with other key functions regarding underwriting or risk management tasks to give judgments, decisions and actions that are relevant to the overall governance system.

The Actuarial function shall annually provide an opinion on the guidelines for reinsurance and reinsurance programme for the company or the group as a whole. The company should take appropriate steps to manage potential conflicts of interest if the company decides to impose actuarial function additional information or activities.

1. In coordinating the calculation of the technical provisions, the actuarial function shall in particular:
 - apply methodologies and procedures to assess the sufficiency of technical provisions and to ensure that their calculation is consistent with the requirements set out in Articles 75 to 83 of Directive 2009/138/EC;
 - assess the uncertainty associated with the estimates made in the calculation of technical provisions;
 - ensure that any limitations of data used to calculate technical provisions are properly dealt with
 - ensure that the most appropriate approximations for the purpose of calculating the best estimate are found in cases referred to in Article 82 of Directive 2009/138/EC;
 - ensure that homogeneous risk groups of insurance and reinsurance obligations are identified for an appropriate assessment of the underlying risks;
 - consider relevant information provided by financial markets and generally available data on underwriting risks and ensure that it is integrated into the assessment of technical provisions;
 - compare and justify any material differences in the calculation of technical provisions from year to year;
 - ensure that an appropriate assessment is provided of options and guarantees included in insurance and reinsurance contracts.
2. The actuarial function shall assess whether the methodologies and assumptions used in the calculation of the technical provisions are appropriate for the specific lines of business of the undertaking and for the way the business is managed, having regard to the available data.

3. The actuarial function shall assess whether the information technology systems used in the calculation of technical provisions sufficiently support the actuarial and statistical procedures.
4. The actuarial function shall, when comparing best estimates against experience, review the quality of past best estimates and use the insights gained from this assessment to improve the quality of current calculations. The comparison of best estimates against experience shall include comparisons between observed values and the estimates underlying the calculation of the best estimate, in order to draw conclusions on the appropriateness, accuracy and completeness of the data and assumptions used as well as on the methodologies applied in their calculation.
5. Information submitted to the administrative, management or supervisory body on the calculation of the technical provisions shall at least include a reasoned analysis on the reliability and adequacy of their calculation and on the sources and the degree of uncertainty of the estimate of the technical provisions. That reasoned analysis shall be supported by a sensitivity analysis that includes an investigation of the sensitivity of the technical provisions to each of the major risk underlying the obligations which are covered in the technical provisions. The actuarial function shall clearly state and explain any concerns it may have concerning the adequacy of technical provisions.
6. Regarding the underwriting policy, the opinion to be expressed by the actuarial function in accordance with Article 48(1)(g) of Directive 2009/138/EC shall at least include conclusions regarding the following considerations:
 - sufficiency of the premiums to be earned to cover future claims and expenses, notably taking into consideration the underlying risks (including underwriting risks), and the impact of options and guarantees included in insurance and reinsurance contracts on the sufficiency of premiums ;
 - considerations regarding inflation, legal risk, change in the composition of the undertaking's portfolio, and effect of systems which adjust the premiums policyholders pay upwards or downwards depending on their claims history (bonus-malus systems) or similar systems, implemented in specific homogeneous risk groups;
 - the progressive tendency of a portfolio of insurance contracts to attract or retain insured persons with a higher risk profile (anti-selection).
7. Regarding the overall reinsurance arrangements, the opinion to be expressed by the actuarial function in accordance with Article 48(1)(h) of Directive 2009/130/EC shall include analysis on the adequacy of:
 - the undertaking's risk profile and underwriting policy;
 - reinsurance providers taking into account their credit standing;
 - the expected cover under stress scenarios in relation to the underwriting policy;
 - the calculation of the amounts recoverable from reinsurance contracts and special purpose vehicles.

The actuarial function shall produce a written report to be submitted to the administrative, management or supervisory body, at least annually. The report shall document all tasks that have been undertaken by the actuarial functions and their results, and shall clearly identify any deficiencies and give recommendations as to how such deficiencies should be remedied.

B.7 OUTSOURCING

Sappisure appointed Aon Global Risk Consulting AB ("AGRC") to provide professional reinsurance and management expertise to Sappisure according to a management agreement dated 20 June, 2018. This includes providing a compliance function in accordance with FFS 2015:8 and a risk control function. It is the role of Sappisure and AGRC to implement the policies approved by Sappisure's board.

The purpose of this policy is to establish the requirements for identifying, justifying, and implementing outsourcing arrangements for any function or activity within the Company, this in order to ensure that the outsourcing activities are carried out appropriately.

The Board remains fully responsible for discharging all of its obligations when it outsources functions or activities.

It is a requirement that outsourcing of critical or important operational functions or activities shall not be undertaken in such a way as to lead to any of the following:

- materially impairing the quality of the system of governance of the Company;
- unduly increasing the operational risk;
- impairing the ability of the supervisory authorities to monitor the compliance of the Company with its obligations;
- undermining continuous and satisfactory service to reinsured counterparties.

The activities that Sappi believes to be of considerable importance for outsourced responsibilities are:

- Administration
- Underwriting and claims management
- Investments
- Finance and Accounting
- Risk control Function
- Compliance Function
- Actuarial Function
- Audit function

The Managing Director is responsible for arranging and validating outsourcing agreements.

No service, function and/or activity may be outsourced without the prior formal and written confirmation of the Board of Directors or by a person it has duly authorized.

Written agreements shall always be drawn up, and these shall contain at least information about:

- Description, cost and time of the assignment
- Termination of the contract
- Assumption of responsibility and reporting requirements
- Crisis management and back-up plan description
- Confidentiality clause
- Compliance of the service provider to law and regulation
- Access to information for the undertaking, its external auditor and its supervisory authority
- Potential sub-outsourcing

Those agreements must be signed by the Board of Directors or by a person it has duly authorized. Generally speaking, the Board of Directors is responsible for ensuring that the provider has effective processes to identify, assess, mitigate, manage, monitor and report risks that may impact the operations of the Company and that the said processes meet the Company's quality standards.

In order to ensure against an undue increase in operational risk, when outsourcing critical or important functions or activities the Board of Directors must:

- verify that the service provider has adequate financial resources to take on the additional tasks the Company plans to transfer and to properly and reliably discharge its duties towards the Company;
- verify that the staff of the service provider is chosen on the basis of criteria that give reasonable assurance that they are sufficiently qualified and reliable;
- verify that the service provider properly isolates and identifies the information, documentation and assets belonging to the Company and its clients in order to protect their confidentiality;
- make sure that the service provider has contingency plans for how to terminate the assignment and transfer back the activities to the Company without significant disturbance of the business.
- make sure the service provider has adequate contingency plans in place to deal with emergency situations or business disruptions and has periodic testing of backup facilities where that is necessary having regard to the function, service or activity outsourced.

In order to ensure that the outsourcing of critical or important functions or activities does not impair the ability of the supervisory authorities to monitor the compliance of the Company with its obligations, it must ensure:

- the service provider's cooperation with the supervisory authorities of the Company in connection with the outsourced functions or activities;
- the Company, the parent group, its external auditors and the relevant supervisory authorities have effective access to data related to the outsourced functions or activities;
- the supervisory authorities have effective access to the business premises of the service provider and are able to exercise this right.

Business Continuity Management (BCM)

Where a material business activity or function is outsourced, Sappi must ensure that the BCM documentation of the service provider outlines the procedures to be followed in the event that the service provider is unable to fulfil its obligations under the outsourcing agreement for any reason.

Internal Outsourcing

In case of internal outsourcing, i.e. where the service provider is the parent or a sister company of Sappi, some of the requirements may be applied with more flexibility. The examination of the service provider and the corresponding written agreement may be less detailed provided the Board of Directors has greater familiarity with the service provider.

All outsourcing arrangements must be organised in a way so that appropriate reporting capabilities are in place and meet the Company's qualitative (contents, periodicity, etc.) requirements and needs. Reporting capabilities must equally enable effective management and control of outsourcing arrangements and to identify potential problems at an early stage.

Delegation

The Board of Directors may delegate the control of outsourced activities to the Risk Management Function and can be performed with support with the Internal Audit function.

The following operational functions and activities have been outsourced during the reporting period:

Functions and activities	Responsible Person in outsourced company	Company
Administration	Monica Löv	AGRC AB
Claims management	Monica Löv	AGRC AB
Finance and Accounting	Monica Löv	AGRC AB
Risk control	Camilla Nydahl	AGRC AB
Compliance Function	Josefine Dawson	AGRC AB
Actuarial Function	Filip Cederquist	AGRC AB

B.8 ANY OTHER INFORMATION

No other information

C. RISK PROFILE

C.1 UNDERWRITING RISK

Underwriting risk relates to the pricing of insurance contracts and the inherent uncertainty associated with these agreements. Provision risk is the risk that technical provisions will be insufficient.

The Company shall follow the Finansinspektionen's General Guidelines (FFFS 2015:8) on Underwriting Risks and Reinsurance Risks in Insurance Companies and the underwriting guidelines approved by the board of directors and approved by the Company's actuary.

In the context of Sappi's overall risk management strategy Sappisure needs to remain risk neutral and will not assume any insurance risks that could reduce its capital in the event of a claim. This implies that all policies are to be structured on a pay-as-paid basis, in order to avoid Sappisure having to pay a claim without being compensated. All policies written for Sappi companies therefore need to be fully reinsured, also on a pay-as-paid basis. Sappi companies assume the risk that if, for whatever reasons, Sappisure is not paid a reinsurance claim then the claim to the Sappi company will also not be paid.

This strategy protects the capital of Sappisure. A "capital top-up" arrangement is part of the reinsurance with Sappi Papier Holding (SPH), Sappi's international holding company. This contract is fronted by Vienna Insurance Group, an insurance company under Austrian financial supervision (FMA), which inclusion in the arrangement was one of the conditions stipulated by Finansinspektionen when approving Sappisure's insurance license application 2007. In terms of this arrangement any event at Sappisure that has the impact of reducing its capital below the minimal capital requirement results in an immediate cash transfer from SPH to restore Sappisure's capital to the required level. The specific reason for structuring the insurance and reinsurance arrangements of Sappisure in this way is to ensure that Sappisure will never be short of capital and always maintain capital at least at 125% of the minimum capital requirement.

Sappisure is responsible for the insurance underwriting process. However, external consultants may be appointed on a case by case basis in order to provide certain services in respect of underwriting. Only the board of directors has the authority to place Sappisure at insurance/reinsurance risk. The signing of various insurance/reinsurance documents can be delegated to two board members jointly. In the event of exceptional circumstances that require urgent attention, the managing director and the Sappi Group Risk Manager (in his position as a Sappisure board member) may place Sappisure at insurance/reinsurance risk, subject to subsequent ratification by the board of directors.

STRESS TESTS 2018:

The results under any scenario will be known, i.e. Sappisure will never pay a claim unless it first receives claim payments from the reinsurance policies.

Any given insurance event, normal or stressed, will not impact the capital or Solvency of Sappisure as long as the pay-as-paid clause is in place for each and every insurance agreement. In the (unlikely) event that reinsurance policy claim is not paid, there is no obligation on Sappisure to pay the regional Sappi claim due to the fact that all the policies are structured on a pay-as-paid basis.

The result of the stress test regarding underwriting test is mitigated by the structure and use of the default swap.

SENSITIVITY ANALYSIS

In the sensitivity analysis that has been carried out for the company's insurance portfolio, the sensitivity has been calculated for spot risks, distribution risks, and genuine catastrophe risks. Spot risks relate to risks due to a given outcome being changed. Distribution risks, which are also known as catastrophe risks, refer to the risk for an adverse outcome. Bona-fide catastrophe risks refer to natural disasters or cumulative risks. The analysis has been performed through a stress test where a certain percentage change to the relevant parameter has been adopted or that a probability expressed as a percentage has been calculated. Below is the impact this will have on income and on equity (expressed in kEUR):

Spot risks	Increase in percent	Impact on income and equity
Claim frequency	10%	-26 (-26)
Average claim amount	10%	-26 (-26)
Claim inflation	1%	427 (-235)

Distribution risks

The probability that more than 50 per cent of the capital base is eroded away due to unfavourable claims outcomes during the reporting period have been deemed to be negligible following actuarial calculations. The probability of using more than the allocated premium reserve to cover claims for the remainder of the term of current contracts is greater than five per cent. The impact on profits as a result of a disaster scenario that occurs more than every 200 years during the reinsurance programme in question would be EUR 628 thousand.

Bona-fide disaster risks

For Sappisure Försäkrings AB, there is no probability of bona-fide disaster risks.

Concentration of insurance risk

The Company's insurance risk is spread around the world and is placed in Europe, South Africa and the US.

C.2 MARKET RISK

Market risk relates to the risk that the factors affecting the value of financial assets may develop in a negative way for the Company. The market risk includes interest risk and price risk. The interest rate risk and price risk in investments are managed by the Company complying with internal investment guidelines. Market risk is also limited by the investments having a short-term due date structure. The Company continuously monitors the development of its investments.

On 31 December, 2018 the Company had investments in government securities at a value of EUR 2 004 thousand and bank accounts at a value of EUR 15 128 thousand.

The financial portfolio as of 2018-12-31 was structured as below:

French T-Bills:	11.72%
Bank Accounts:	88.28%

Foreign exchange risk arises when the Company performs a transaction in a currency other than the functional currency. Sappisure minimises its currency risk by entering into monthly foreign exchange contracts with Sappi's group treasury.

The investments are in accordance with Sappisure's investment policy, and they are made into relative secure investments. Therefore, the market risks are considered to be low.

C.3 CREDIT RISK

The Company's insurance risks are reinsured with a number of reinsurance companies. The placement of reinsurance has been carried out by Marsh in London and Marsh in South Africa.

When placing reinsurance, the reinsurers solvency and capacity to pay shall be evaluated. This also applies to all financial counterparties, e.g. banks who hold cash deposits for Sappisure. External reinsurers shall have a minimum international credit rating of A- (Standard & Poors) or a corresponding rating from another rating agency.

The Company may also be protected by a "Capital Top-up Agreement" fronted by a bank, insurance company or a reinsurance company which is under supervision of a financial authority. The exposure to credit risks relates primarily to reinsurers, both through reinsurance claims and the reinsurers' share of unsettled claims. The exposure is very limited for premium claims on the insured parties.

STRESS TEST 2018:

The company prepared the following stress test regarding the credit risk:

Sappisure's banking counterparties' credit ratings drop materially.

Result: Sappisure's default risk would then increase with approximately 0.4 MEUR from the base case of 5.8 MEUR with total SCR at 6.2 MEUR.

The scenario is mitigated by the structure and use of the default swap.

SENSITIVITY ANALYSIS:

In the sensitivity analysis conducted for Sappisure, the sensitivity has been calculated with respect to changes in the market interest rate and the general credit risk. The analysis has been conducted through a stress test, where a certain percentage change for the relevant parameter has been assumed. The table below shows the impact that these changes have on profit and on equity. The method for the year is updated in respect of gross assets and not a duration weighted sum that has been stress tested. The results from previous methods are presented in brackets in the table.

Change in the capital base due to (kEUR):

Investment risks, EUR thousand	Change	Impact on income and equity
Change in the capital base due to:		
- increased market interest rates	1%	-171(-151)
-general credit risk (change in spread)	0.50%	- 86 (-76)
-exchange rate risk	10%	- (-)

All investments of assets are routine based and done with regard to the "prudent person" rule (article 132) in the Solvency II directive 2009/138 EC. For the Company this principle means that investments are made in the best interest of the insured and the beneficiary, with limited exposure to adverse market risks. In all investment decisions the company shall also take into account the company's capital base and the outcome from the company's financing planning/calculation. All investments are made via a regulated financial market. No investments are allowed to be used as pledge.

C.4 LIQUIDITY RISK

Liquidity risks in a broad sense refer to assets for financing and reinsurance. If a liquidity risk is realised it can have a detrimental impact on regular business activities and jeopardise the ability to meet the day-to-day payment commitments. The liquidity risk is handled by means of investments being made in government bonds, banks and placing deposits with Group companies.

Sappisur should, according to its investment policy, always have enough short-term investments (up to three months) available within five days, without any large transaction costs or large capital losses to meet the sum of calculated running costs and insurance claims during one month.

The objective of the investment portfolio is to maximise investment return by taking advantage of the beneficial interest rates offered on inter-group credit agreements and then to place surplus funds on deposit with a bank or Sappi group treasury.

Investments to cover Technical Reserves on own account must be invested in 100% secure Governmental Bonds or equivalent or in Swedish bank accounts or short-term bank deposits. Assets in bank accounts or short-term bank deposits may only be 75 % of assets used to cover technical provisions. For the purpose to cover technical reserves receivables on policy holders may be used as admissible assets.

If an excess of investments to cover technical reserves exists Sappisur may invest its financial assets in short-term bank deposits, interest-bearing securities (max. 35%), cash or money market instruments and deposits with Sappi Group Treasury. Sappisur will not invest in equity or equity linked instruments. External borrowing for investments is not allowed.

The assets in Sappisur's financial portfolio are considered to have a high liquidity and the liquidity risks are therefore considered to be low. Concentration risk is about capital charge for the impact of having an insufficiently diversified asset portfolio. At the end of the year 89% of the financial portfolio has been invested in bank accounts in the bank with a strong credit rating and 11% invested in French T-bill with a short maturity.

C.5 OPERATIONAL RISK

The operational risks include, among others, administrative risks. This comprises the quality of the financial information provided, as well as staffing and access to the expertise at Aon Global Risk Consulting AB, which as part of a management agreement manages the Company's insurance administration on an ongoing basis. The accounting quality is ensured by well-developed control functions in the current working documents. In order to minimise the operational risk, there are several people at Aon Global Risk Consulting AB who can manage the Company.

The operational risks also include the risks associated with IT. These are handled by well-designed backup routines. The Company's control of processes, procedures and policy documents are subject to ongoing review, both internally through cooperation with Aon Global Risk Consulting AB, and together with a compliance, risk control and independent audit function.

The compliance, risk control and the independent audit function is established under FSA's general guidelines regarding governance and control of financial undertakings. The compliance function is responsible for regulatory compliance in the Company. The risk control function is responsible for monitoring the risk management of the Company. Independent audit function checks the internal controls of the Company as well as the work of compliance and risk control.

The company has a Risk Register. The company mainly lists operational and financial risks in this risk register and respective mitigation actions for these risks. This part of the risk register could preferably be seen as a part of the contingency planning.

C.6 OTHER MATERIAL RISKS

None

C.7 ANY OTHER INFORMATION

None

D. VALUATION FOR SOLVENCY PURPOSES

The standard formula has been used in all valuations below, should nothing else be noted.

D.1 ASSETS

		Solvency II value	Statutory accounts value
		C0010	C0020
Assets			
Goodwill	R0010		
Deferred acquisition costs	R0020		1
Intangible assets	R0030		
Deferred tax assets	R0040		
Pension benefit surplus	R0050		
Property, plant & equipment held for own use	R0060		
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	2 002	2 011
Property (other than for own use)	R0080		
Holdings in related undertakings, including participations	R0090		
Equities	R0100	0	0
Equities - listed	R0110		
Equities - unlisted	R0120		
Bonds	R0130	2 002	2 011
Government Bonds	R0140	2 002	2 005
Corporate Bonds	R0150		6
Structured notes	R0160		
Collateralised securities	R0170		
Collective Investments Undertakings	R0180		
Derivatives	R0190		
Deposits other than cash equivalents	R0200		
Other investments	R0210		
Assets held for index-linked and unit-linked contracts	R0220		
Loans and mortgages	R0230	0	0
Loans on policies	R0240		
Loans and mortgages to individuals	R0250		
Other loans and mortgages	R0260		
Reinsurance recoverables from:	R0270	-3 406	0
Non-life and health similar to non-life	R0280	-3 406	0
Non-life excluding health	R0290	-3 406	
Health similar to non-life	R0300		
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	0	0
Health similar to life	R0320		
Life excluding health and index-linked and unit-linked	R0330		
Life index-linked and unit-linked	R0340		
Deposits to cedants	R0350		
Insurance and intermediaries receivables	R0360	10	10
Reinsurance receivables	R0370	10	10
Receivables (trade, not insurance)	R0380	629	629
Own shares (held directly)	R0390		
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400		
Cash and cash equivalents	R0410	15 128	15 128
Any other assets, not elsewhere shown	R0420	557	557
Total assets	R0500	14 929	18 344

Investments are valued in accordance with the standard formula. Ceded Technical Provisions are corrected within the standard model with cash-flows stemming from written risk. Other assets are valued as nominal. The negative recoverables comes from the cash flows noted in D.2.

D.2 TECHNICAL PROVISIONS

Claims costs are valued as outgoing cash-flows (claims reserves, IBNR, Claims handling costs etc.). Written ceded premiums are accounted for as one payment outflow given that the ceding contract is signed. Ceded premium reserves are added under given claims ratio. The negative values for Best

Estimate comes from the accepted risk of the renewals being carried out at the start of 2019. The renewals are considered to be an inflow of premiums and a minor outflow of claims (calculated as premiums*claims ratio).

		Solvency II value	Statutory accounts value
		C0010	C0020
Liabilities			
Technical provisions – non-life	R0510	-2 399	9 360
Technical provisions – non-life (excluding health)	R0520	-2 399	9 360
Technical provisions calculated as a whole	R0530		
Best Estimate	R0540	-3 292	
Risk margin	R0550	892	
Technical provisions - health (similar to non-life)	R0560	0	
Technical provisions calculated as a whole	R0570		
Best Estimate	R0580		
Risk margin	R0590		
Technical provisions - life (excluding index-linked and unit-linked)	R0600	0	0
Technical provisions - health (similar to life)	R0610	0	
Technical provisions calculated as a whole	R0620		
Best Estimate	R0630		
Risk margin	R0640		
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	0	
Technical provisions calculated as a whole	R0660		
Best Estimate	R0670		
Risk margin	R0680		
Technical provisions – index-linked and unit-linked	R0690	0	
Technical provisions calculated as a whole	R0700		
Best Estimate	R0710		
Risk margin	R0720		
Other technical provisions	R0730		

Line of business	Gross Best estimate	Net Best Estimate	Risk Margin	Technical Provision	Recover. incl adjustment	Technical Provision less Recover
(1) Medical expense insurance	0	0	0	0	0	0
(2) Income protection insurance	0	0	0	0	0	0
(3) Workers' compensation insurance	0	0	0	0	0	0
(4) Motor vehicle liability insurance	0	0	0	0	0	0
(5) Other motor insurance	0	0	0	0	0	0
(6) Marine, aviation and transport insurance	-464	-249	30	-434	-216	-218
(7) Fire and other damage to property insurance	-8 704	-5 681	338	-8 366	-3 023	-5 343
(8) General liability insurance	0	0	0	0	0	0
(9) Credit and suretyship insurance	0	0	0	0	0	0
(10) Legal expenses insurance	0	0	0	0	0	0
(11) Assistance	0	0	0	0	0	0
(12) Miscellaneous financial loss	-434	-266	12	-422	-168	-254
(25) Non-Prop health Reinsurance	0	0	0	0	0	0
(26) Non-Prop casualty Reinsurance	50	50	10	60	0	60
(27) Non-Prop marine, aviation and transport Reinsurance	442	442	33	474	0	474
(28) Non-Prop property Reinsurance	5 818	5 818	470	6 288	0	6 288
Non Life	-3 292	115	892	-2 399	-3 406	1 007
NSLT Health	0	0	0	0	0	0
Total Non Life	-3 292	115	892	-2 399	-3 406	1 007

D.3 OTHER LIABILITIES

Other liabilities are noted as nominal values.

		Solvency II value	Statutory accounts value
		C0010	C0020
Liabilities			
Contingent liabilities	R0740		
Provisions other than technical provisions	R0750		
Pension benefit obligations	R0760		
Deposits from reinsurers	R0770		
Deferred tax liabilities	R0780	1 836	
Derivatives	R0790		
Debts owed to credit institutions	R0800		
Financial liabilities other than debts owed to credit institutions	R0810		
Insurance & intermediaries payables	R0820		
Reinsurance payables	R0830	6	6
Payables (trade, not insurance)	R0840	168	168
Subordinated liabilities	R0850	0	0
Subordinated liabilities not in Basic Own Funds	R0860		
Subordinated liabilities in Basic Own Funds	R0870		
Any other liabilities, not elsewhere shown	R0880	600	600
Total liabilities	R0900	211	10 134
Excess of assets over liabilities	R1000	14 719	8 210

Deferred tax liabilities are 22% of any profits on revaluations on the balance sheet.

D.4 ALTERNATIVE METHODS FOR VALUATION

No alternative methods are used.

D.5 ANY OTHER INFORMATION

No other information applicable.

E. CAPITAL MANAGEMENT

E.1 OWN FUNDS

Eligible capital develops as below. Eligible capital consists solely of own capital that is considered to be primary capital. The company's base of capital is not in any way subject to article 308d.9 or 308b.10 directive 2009/2009/138/EG. Own funds are noted at 14 719 KEUR of which 3 300 KEUR are share capital. 11 419 KUR are from statutory P&L's and profits from revaluations.

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	3 300	3 300			
Share premium account related to ordinary share capital	R0030	0				
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	R0040	0				
Subordinated mutual member accounts	R0050	0				
Surplus funds	R0070	0				
Preference shares	R0090	0				
Share premium account related to preference shares	R0110	0				
Reconciliation reserve	R0130	11 419	11 419			
Subordinated liabilities	R0140	0				
An amount equal to the value of net deferred tax assets	R0160	0				
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	0				

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

The major modules in the SCR are the NL-risk and default risk. Note that the default risk is mitigated by the pay-as-paid clauses.

		Net solvency capital requirement	Gross solvency capital requirement	Allocation from adjustments due to RFF and Matching adjustments portfolios
		C0030	C0040	C0050
Market risk	R0010	229	229	
Counterparty default risk	R0020	1 015	1 015	
Life underwriting risk	R0030			
Health underwriting risk	R0040			
Non-life underwriting risk	R0050	5 969	5 969	
Diversification	R0060	-612	-612	
Intangible asset risk	R0070		0	
Basic Solvency Capital Requirement	R0100	6 601	6 601	

Calculation of Solvency Capital Requirement

		Value
		C0100
Adjustment due to RFF/MAP nSCR aggregation	R0120	
Operational risk	R0130	1 022
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	-1 677
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency Capital Requirement excluding capital add-on	R0200	5 946
Capital add-on already set	R0210	
Solvency capital requirement	R0220	5 946

The measured requirements of the SCR modules and MCR are presented below.

Overall MCR calculation		C0070
Linear MCR	R0300	2 550
SCR	R0310	5 946
MCR cap	R0320	2 676
MCR floor	R0330	1 487
Combined MCR	R0340	2 550
Absolute floor of the MCR	R0350	3 700
Minimum Capital Requirement	R0400	3 700

E.3 USE OF THE DURATION-BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE SOLVENCY CAPITAL

The company does not use the method.

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED

No internal model is used.

E.5 NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND NON-COMPLIANCE WITH THE SOLVENCY CAPITAL

The company runs no foreseeable risk of insolvency with regard to MCR and SCR.

E.6 OTHER INFORMATION

No miscellaneous information applicable.